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Report of the Secretary-General on the activities of the Office of Internal Oversight Services

Investigation into the misdirection of contributions made by Member States to the United Nations Environment Programme Trust Fund account

Note by the Secretary-General

1. Pursuant to General Assembly resolutions 48/218 B of 29 July 1994 and 54/244 of 23 December 1999, the Secretary-General has the honour to transmit, for the attention of the General Assembly, the attached report, conveyed to him by the Under-Secretary-General for Internal Oversight Services, on the investigation into the misdirection of contributions made by Member States to the United Nations Environment Programme Trust Fund account.

2. The Secretary-General takes note of its findings and concurs with its recommendations.

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Investigation into the misdirection of contributions made by Member States to the United Nations Environment Programme Trust Fund account

Summary

Between 12 February 1998 and 25 October 1999, 13 wire transfers of funds intended as contributions to the United Nations Environment Programme (UNEP) Trust Fund account at the Chase Manhattan Bank (hereinafter referred to as Chase), totalling US$ 701,998.94, were made by nine Member States (i.e., Belgium, Dominica, Finland, France, Italy, Namibia, Saint Kitts and Nevis, Turkey and Uruguay). Instead, the funds were deposited in error into the account of another account holder at Chase, Susan Rouse-Madakor. The account number of the UNEP Trust Fund at Chase is *001-1*-XXXXXX, while the account number of Ms. Rouse-Madakor is *001*-XXXXXX, the same but for the one-digit difference. When requested by Chase to return the funds which were clearly intended for UNEP, Ms. Rouse-Madakor refused and has since been charged with fraud by United States authorities. After discussions with the Office of Internal Oversight Services, the United Nations Treasurer and the Office of Legal Affairs, Chase, as an accommodation to the United Nations, has restored the full amount of US$ 701,998.94 to UNEP, the equivalent of both the US$ 470,121.57 being held by Chase pending legal action and the US$ 231,877.37 spent by Ms. Rouse-Madakor.

The Investigations Section of the Office of Internal Oversight Services conducted an investigation upon receipt of a report by the United Nations Treasurer in November 1999 concerning several deposits misdirected into Ms. Rouse-Madakor's account, which she had refused to return. In addition to interviewing United Nations staff and Chase personnel, the Investigations Section analysed the documentation provided to the Organization by six of the concerned Member States, Chase and the United Nations Office at Nairobi which administers the UNEP Trust Fund.

The 13 contributions were misdeposited for two key reasons: (a) most of the funds transfer instructions did not include the fourth digit "1" in the UNEP Trust Fund account number although the United Nations Office at Nairobi had provided the correct account number to the Member States; and (b) the system used by Chase provides for wire transfer deposits to be made by account number only, without reference to the name of the intended beneficiary. Since the 001-XXXXXX account number was an active account at Chase, the transfers were automatically credited by Chase to the Rouse-Madakor account instead of to that of UNEP, the intended beneficiary of the transfers. It must be noted that, during the same time period, 88 contributions totalling US$ 22,545,948 were correctly deposited to the UNEP Trust Fund account by wire transfers initiated by the above-mentioned nine Member States, even though some of the transfer instructions were to the incorrect account number.

In addition, the Investigations Section noted that the United Nations Office at Nairobi did not act in a prompt and efficient manner in identifying and addressing the misdirected contributions, thereby allowing additional deposits to be credited to the Rouse-Madakor account. For example, the Government of Italy was the first to notify

the United Nations Office at Nairobi that its contribution, which it had reported in March 1998, had not been credited as at September 1998. It took the United Nations Office at Nairobi several months to provide all of the required tracking information to Chase. In addition, Chase was not responsive to repeated requests from the United Nations Office at Nairobi and it took Chase an additional six months from the initial notification by the Office to identify the misdeposits.

The Investigations Section found no evidence of wrongdoing on the part of United Nations staff members. The events recounted here demonstrate that, while mistakes were made, the only wrongdoing was on the part of Ms. Rouse-Madakor. It also demonstrates the difficulties inherent in the "account number only" system used by Chase. Several recommendations have been made with the aim of improving the current process for the payment of contributions and the communications between the United Nations Office at Nairobi and Member States, and between that Office and Chase. *Both the United Nations Office at Nairobi and the Department of Management have accepted the report's findings and recommendations. The United Nations Office at Nairobi has agreed to notify the Member States of its efforts to achieve full compliance with the recommendations. In September 2000, the Office of Internal Oversight Services will evaluate the compliance of the United Nations Office at Nairobi and advise Member States accordingly.*•

• The response of the United Nations Office at Nairobi and the Department of Management appear in italics.

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I. Introduction

1. Between 12 February 1998 and 25 October 1999, 13 separate contributions, totalling US$ 701,998.94, from nine Member States (i.e., Belgium, Dominica, Finland, France, Italy, Namibia, Saint Kitts and Nevis, Turkey and Uruguay) and intended for the United Nations Environment Programme (UNEP) Trust Fund account at Chase Manhattan Bank (hereinafter referred to as Chase) were deposited in error to the account of another account holder at Chase, Susan Rouse-Madakor. The number of the UNEP Trust Fund account at Chase is *001-1*-XXXXXX, while Ms. Rouse-Madakor's account number is the same but for the fourth digit "1", *001*-XXXXXX, a one-digit difference. During the same period, 88 contributions totalling US$ 22,545,948 were correctly deposited to the UNEP Trust Fund account by wire transfers initiated by the same nine Member States.

2. All invoices and receipts for UNEP, including those for the UNEP conventions and more than 90 trust funds, originate in the United Nations Office at Nairobi. All trust fund contributions, with the exception of the Multilateral Fund for the Implementation of the Montreal Protocol and counterpart contributions, are received in the same UNEP account at Chase. This account was opened in August 1996 by the United Nations after a competitive bid process in order to facilitate the deposit of donations by Member States to UNEP.

3. The Investigations Section of the Office of Internal Oversight Services, upon receipt of a report by the United Nations Treasurer in November 1999 concerning the deposits misdirected into the account of Ms. Rouse-Madakor, conducted an investigation. In the course of its investigation, the Section examined documents provided by six of the Member States concerned, by Chase and by the United Nations Office at Nairobi which administers the UNEP Trust Fund account. In addition, investigators of the Section interviewed individuals at the United Nations Office at Nairobi and UNEP. Chase voluntarily agreed to make staff available for interview and provide information. The Investigations Section was further assisted by representatives of the concerned Member States.

II. Funds transfer

4. Contributions to the UNEP trust funds are made by electronic funds transfer for which the contributing Member State, through its remitting bank, provides the following information: the account number of the beneficiary (in the present case, that of the UNEP Trust Fund account at Chase); the name of the beneficiary (i.e., UNEP Trust Fund); the amount; the currency of the donation; the name and address of the beneficiary's bank (i.e., Chase); information on the intermediary bank for routing purposes (i.e., if needed); and miscellaneous information related to the purpose of the funds transfer. The remitting bank would send the beneficiary's bank, Chase, an electronic instruction to debit its account and provide Chase with the above-mentioned information. Chase would then debit the remitter's account and credit the UNEP Trust Fund account.

5. In order to understand how the contributions were misdirected into the Rouse-Madakor account, the United Nations requested the Member States concerned to provide their available documentation relating to the instructions given to their respective remitting banks. Six Member States (Belgium, Dominica, Finland, France, Italy and Turkey) responded to the request and provided documents to the United Nations Treasurer which were made available to the Investigations Section for the present inquiry.

6. The documents provided demonstrate that the remitting banks for Dominica, France, Finland, Italy and Turkey instructed Chase to credit account number *001*-XXXXXX at Chase instead of *001-1*-XXXXXX. In the case of the three contributions from Belgium, the remitting bank had instructed Chase to credit account number *000-1*-XXXXXX.

7. The documentary evidence provided by Dominica reveals that the Government had provided the correct account number to its remitting bank. It was this bank, the Eastern Caribbean Central Bank on Saint Kitts, which had provided the account number, *001*-XXXXXX to their correspondent bank, The Federal Reserve Bank of New York, to transfer the funds to Chase.

8. The Investigations Section obtained documents which had been previously provided to the United Nations Office at Nairobi by Uruguay concerning its misdirected contribution, and these also reveal that the

remitting bank had provided Chase with the *001*-XXXXXX account number instead of account number *001-1*-XXXXXX.

9. During discussions with representatives from several of the Member States concerned, the Investigations Section was informed that they use the invoices of the United Nations Office at Nairobi for outstanding contributions as the source document for initiating their internal processes for payment. The Section obtained and examined copies of a large number of those invoices and found that the correct account number, that is, *001-1*-XXXXXX, was on all of them. The Section also reviewed several internal documents of Member States, such as the Royal Order signed by the King of Belgium, which authorized the contributions to the UNEP Trust Fund. The correct account number, *001-1*-XXXXXX was also on those documents.

10. In the course of its investigation, the Investigations Section did not locate, and was not provided with, any evidence, either verbal or written, that the United Nations Office at Nairobi or another office of the Organization had provided the incorrect account number. It should be noted that, for each of the 13 misdirected contributions, the intended beneficiary was always clearly stated on the transfer instructions to Chase to be the UNEP Trust Fund. As discussed below, however Chase asserts that it is required to process the wire transfer based only on the account number and not the name of the beneficiary.

III. Findings

11. Based on the information provided by the Member States and Chase, as well as the documentation available in the files at the United Nations Office at Nairobi and UNEP, the Investigations Section has compiled the following information relating to the misdirected contributions.

A. Government of Italy advises the United Nations Office at Nairobi

12. The first alert that there was a problem came from the Italian Government. In a letter dated 13 March 1998, the Italian Ministry of the Environment informed the Executive Secretary of the Ozone Secretariat that the Italian Government's 1998 contribution of US$ 191,671 for the Montreal Protocol had been paid. In response to that letter, the Executive Secretary, in a letter dated 5 May 1998, thanked the Government for its contribution and added that the Treasurer would send an official receipt in due course. However, the United Nations Office at Nairobi, which was the office responsible for the recording of deposits, had not received the report of this deposit from Chase. Thus, by a letter dated 24 July 1998, the United Nations Office at Nairobi notified the Italian Embassy in Nairobi that the Government's 1998 contribution was still outstanding.

13. In response to the notification sent by the United Nations Office at Nairobi, the First Secretary of the Italian Embassy in Nairobi advised, by a letter dated 10 September 1998 addressed to the Officer-in-Charge, Budget and Funds Management Service, that the US$ 191,671 contribution from the Italian Government had been made to account number *001*-XXXXXX, that is, the account number at Chase held by Ms. Rouse-Madakor. In a subsequent response to a request on 15 October 1998 for additional information from the United Nations Office at Nairobi, the First Secretary, by a letter dated 27 October 1998, provided the United Nations Office at Nairobi with the details of the deposit, reiterating that the deposit had been made to account number *001*-XXXXXX. The Officer-in-Charge of the Budget and Funds Management Service responded to the First Secretary on 4 November 1998, stating that an exhaustive search of the *001-1*-XXXXXX account had not revealed the deposit. A careful reading by the staff of the Service of either or both letters from the First Secretary of the Italian Embassy would have alerted the United Nations Office at Nairobi to the reference to an account number which was different from the UNEP account number.

14. Following subsequent communication between the United Nations Office at Nairobi and the Italian Embassy, in which the Embassy forwarded a copy of the deposit instructions from the Ufficio Italiano dei Cambi (Italian Exchange Bank), the Contributions Chief of the Budget and Funds Management Service, in a memorandum dated 16 February 1999, instructed the Chief Cashier, Financial Resources Management Service, to request the assistance of Chase in tracing the Italian contribution. The Chief Cashier did so on 17 February 1999 by means of a fax sent to Chase. The Bank has stated that it responded on 19 February 1999, also by means of a fax, and advised that a review of the

UNEP Trust Fund account had not revealed the deposit. Finance staff members at the United Nations Office at Nairobi report, however, that they did not receive the fax from Chase until 22 April 1999, when the United Nations Office at Nairobi requested Chase to fax a response. Chase has been unable to locate confirmation that the fax of 19 February to the Office was successfully transmitted. Chase informed the Investigations Unit of the Office of Internal Oversight Services that, in March 1999, Chase personnel had spoken with staff of the Financial Resources Management Service at Nairobi, requesting information on the remitting bank for the funds transfer from the Italian Ministry of the Environment. Chase notes that at that time, the staff at Nairobi did not indicate that they had not received the reply from Chase. The United Nations Office at Nairobi has asserted to the Investigations Service that the Chief Cashier made follow-up telephone calls to Chase on 24 February, and 8 and 18 March 1999, during which he requested that document.

15. Following the receipt of the Chase transmittal of 22 April 1999, the United Nations Office at Nairobi communicated to Chase, in a fax dated 8 June 1999, their dissatisfaction with the response that Chase had provided. The Chief of the Budget and Funds Management Service informed Chase that the United Nations Office at Nairobi required the assistance of Chase in locating funds which had been transferred by donors and sought more detailed information than that contained in the response by Chase in its fax of 19 February 1999, namely, that the amount was not in the account. The Chief indicated that he needed to be able to inform Member States of the reasons why a particular transfer was not received. He also indicated that his office had provided Chase with details of the transfer and that they were interested in knowing why the transfer had not been received.

16. The documents provided by the Budget and Funds Management Service to Chase contained some information on the transfer. One was the instruction to purchase United States dollars for the contribution, but this document provided no deposit instructions. The other appears to be the transfer instructions from the Italian Ministry of the Environment to the Ufficio Italiano dei Cambi. The copy of this document held by the United Nations Office at Nairobi is of poor quality and barely legible, and the deposit instructions that may be on this document could not be read.

17. The fax sent by the United Nations Office at Nairobi on 8 June 1999 did not, however, elicit a response from Chase until 7 September 1999. Chase had delayed responding, despite three written reminders from the Office, on 14 July, 29 July and 17 August 1999. Chase admitted to the Investigations Service that it had received the fax dated 8 June 1999 but stated that it had no record of having received the three reminder faxes. The Investigations Service provided Chase with three fax transmission confirmations: one for the 14 July fax and two for the 17 August fax which had been sent twice to Chase. While Chase indicated that it had no record of having received the fax dated 29 July 1999, it did admit that it received on 30 July 1999 a copy of the fax dated 29 July 1999 from the United Nations Treasurer who had forwarded a copy to them. Chase has not, however, provided an explanation as to why it did not respond to the fax. Furthermore, Chase did not provide an explanation as to why it took almost three months to respond to the fax dated 8 June 1999 from the United Nations Office at Nairobi.

18. Because the United Nations Office at Nairobi was continuing to have difficulty in obtaining the assistance of Chase in tracing the missing deposits from Italy and from Uruguay (see sect. B below), the United Nations Office at Nairobi contacted the United Nations Treasurer who advised that banking protocol required investigations of wire transfers to begin with the remitting bank. When the Chief of the Financial Resources Management Service was asked by the Investigations Service why the Italian Government had not been contacted to request that the investigation be initiated by its remitting bank, he responded that, since contact with donors was only through the Budget and Funds Management Service, the Financial Resources Management Service did not contact the Italian bank or ask the Italian Government to contact its bank at any time.

19. In his response dated 7 September to the fax dated 8 June 1999 from the Chief of the Budget and Funds Management Service, the Account Officer of Chase told the United Nations Office at Nairobi to contact the Member State and request the name of the financial institution that had initiated the funds transfer, the date of the transfer and the relevant reference number. He added that this had been previously communicated verbally to the Chief Cashier in February 1999 but, as at 7 September 1999, Chase

had not received the requisite information. When asked by investigators what kind of instructions he had received from Chase in February 1999, the Chief Cashier informed them that he did not recall being told by Chase to provide the information. Chase did not make this request in writing until September 1999 and there is no written evidence that the verbal communication of February transpired. If this were critical for Chase to be able to track the apparently lost deposit, Chase should have communicated it in writing to the Chief Cashier or asked the United Nations Treasurer to do so.

20. Nonetheless, the Chief of the Budget and Funds Management Service advised the Permanent Mission of Italy to UNEP on 4 August 1999 that, in order to resolve the issue, additional information was required from the bank initiating the payment on its exact instructions as well as its confirmation of the transfer of funds.

21. Through its Permanent Mission, the Italian Government was finally told what was needed to trace the contribution, and it contacted its bank, Ufficio Italiano dei Cambi, which, on 10 September 1999, provided the required information directly to Chase. By that time, it was exactly one year from the day when the Government of Italy had first raised the alert. At this point, Chase finally identified that the transaction had been credited to the Rouse-Madakor account instead of the UNEP Trust Fund account. The deposit had been automatically credited to the Rouse-Madakor account, based only on the account number cited by the remitting bank, even though the account name provided by Ufficio Italiano dei Cambi was clearly stated to be the UNEP Trust Fund which did not match the name on the Chase account receiving the deposit. The Ufficio Italiano dei Cambi contested the actions of Chase by responding that, since the name on the account to which the deposit had been credited was different from the beneficiary that it had specified (i.e., the UNEP Trust Fund), Chase should not have made the deposit to the account of Ms. Rouse-Madakor.

22. Chase then contacted Ms. Rouse-Madakor advising her of the erroneous credit to her account and requesting authorization to debit her account. Ms. Rouse-Madakor refused.

23. Despite the extensive correspondence concerning the misdirection of the Italian contribution, on 14 December 1999, the Budget and Funds Management Service sent the Italian Government a follow-up letter and an invoice for its outstanding 1998 contribution of US$ 191,671. When the Service was asked by the investigators why this had been done, its Chief responded that the outstanding notices were sent automatically. Further, he said that, technically, the Italian contribution was still considered to be outstanding when the reminder and the invoice were sent to the Italian Government. Nevertheless, the reminder notice should not have been sent.

B. Government of Uruguay advises the United Nations Office at Nairobi

24. Other Member States also contacted the United Nations Office at Nairobi concerning their contributions. In response to an invoice from the Office for outstanding contributions due, the Permanent Mission of Uruguay in Geneva sent a fax dated 29 January 1999 to the Chief of the Budget and Funds Management Service at Nairobi, requesting updated information on the outstanding contributions due from Uruguay, as well as receipts for payments made. According to the Uruguayan registry, US$ 6,802 had been paid on 10 February 1998. This amount represented the Government's 1995 and 1996 contributions to the Convention on Biological Diversity.

25. On 23 February 1999, the Permanent Mission of Uruguay in Geneva transmitted, by means of a fax to the Chief of the Budget and Funds Management Service, a copy of the order of payment which cited account number *001*-XXXXXX. A handwritten note by a staff member of the United Nations Office at Nairobi on the fax states incorrectly "Uruguay to BY $6,802 10 Feb 98 a/c *001-1*-XXXXXX". Furthermore, as happened when they received a similar communication from the Permanent Mission of Italy in Nairobi, staff at the United Nations Office at Nairobi did not notice that the account identified on the fax from the Mission had a slightly different account number. In a memorandum dated 24 March 1999, the Chief of Contributions, Budget and Funds Management Service, requested the Chief Cashier, Financial Resources Management Service, to seek the assistance of Chase in tracing the Uruguayan deposit.

26. In response to the above-mentioned request, the Chief Cashier, Financial Resources Management Service, sent to Chase on 11 June 1999 a fax in which

he requested advice as to why a Belgian remittance of US$ 39,938 (see sect. C below) and the Uruguayan transfer of US$ 6,802 had not been credited to the UNEP Trust Fund account. Regarding the Uruguayan transfer, the Chief of the Financial Resources Management Service, noted that the Swift code printout reflected that the funds were sent to Chase for credit to account number *001*-XXXXXX, which was erroneous owing to the omission of the fourth digit "1". By this time, the United Nations Office at Nairobi had identified and informed Chase of the cause of the misdirection of the Uruguayan deposit. Chase was requested to investigate and advise the Financial Resources Management Service accordingly; however, the Office did not receive a response from Chase to this request. In a letter dated 14 March 2000 to the Investigations Service, Chase reported that it had not received the fax dated 11 June 1999. The United Nations Office at Nairobi has, however, provided to the Investigations Service a copy of the fax transmission confirmation report which indicates that the fax was successfully transmitted on 11 June 1999.

C. Misdirection of contributions of other Member States

27. The United Nations Office at Nairobi had received notification of missing deposits from the Permanent Representative of Belgium to UNEP. On 18 February 1999, the Chief of Contributions, Budget and Funds Management Service, was advised of a missing contribution of US$ 39,988 to the UNEP Trust Fund. The Office responded to the Permanent Representative of Belgium on 23 February 1999, indicating that a search of its deposit records did not reveal the US$ 39,988 deposit, and it requested exact details of the deposit and/or a copy of the deposit record indicating the date, account number and amount. On 7 April 1999, the Permanent Representative of Belgium communicated to the United Nations Office at Nairobi that the Belgian Ministry for Environment had deposited the contribution into the UNEP account. It should be noted that the account number quoted in this communication was not the account number actually used in the instructions. The bordereau de liquidation et d'ordonnancement dated 16 February 1998 and the ordonnance de dépense dated 19 February 1998 from the Ministerie van Sociale Zaken both indicated account number *000*-1-XXXXXX rather than *001*-1-XXXXXX. The Investigations Service, did, however, note that the correct account number, *001*-1-XXXXXX, had been used in other internal documents, such as the Royal Order signed by the King of Belgium on 22 December 1997, which authorized the 1997 contribution of Belgium to the trust fund for the Basel Convention on the Control of Transboundary Movements of Hazardous Wastes and Their Disposal, and one signed on 19 November 1998, which authorized the 1998 contribution of Belgium to the trust fund for the Montreal Protocol.

28. Even after the cause of this misdirected contribution had been identified to Chase by the United Nations Office at Nairobi on 11 June 1999, additional Member State contributions were misdirected. In a letter dated 16 June 1999, the Ministry of the Environment of Finland instructed its finance section to make a payment of EUR 5,000 to the UNEP Trust Fund account but cited number *001*-XXXXXX rather than *001-1*-XXXXXX.

29. In response to a reminder notice dated 13 October 1999 from the United Nations Office at Nairobi regarding the outstanding Finnish contribution, the Finnish Ministry of the Environment communicated on 29 November 1999 to the Office that it had paid the contribution on 21 June 1999 to account number *001*-XXXXXX. The United Nations Office at Nairobi responded on 17 December 1999 that the correct account number, as quoted in the invoice to the Government of Finland, was *001-1*-XXXXXX, and not *001*-XXXXXX, as had been noted in its fax and in the copy of the bank transfer information which had been remitted by the Finnish Ministry.

30. The payment/transfer form dated 20 August 1998 in the amount of US$ 112 from the Government of Dominica to the Eastern Caribbean Central Bank for payment of its 1998 contribution to the Convention on Biological Diversity specifies account number *001-1*-XXXXXX. The Bank, as remitter for the Government of Dominica, instructed its correspondent bank, The Federal Reserve Bank of New York, to transfer the funds to account number *001*-XXXXXX at Chase. The Member State had provided the correct information but its remitting bank had forwarded an incorrect account number.

31. Even after 10 September 1999, by which date Chase had determined that deposits had been misdirected into the Rouse-Madakor account, additional contributions by Member States continued to

be credited by Chase to the Rouse-Madakor account. The décision d'attribution de subvention No. 18/99 dated 21 September 1999 for the French contribution of FF 100,000 to the Convention on Biological Diversity noted that payment should be made to the UNEP Trust Fund account *00*-1-XXXXXX. This was followed up by a letter dated 26 October 1999 to the Secretary-General from the Embassy of France in the United States of America that a contribution of FF 100,000 had been made on 25 October 1999 to UNEP Trust Fund account *00*-1-XXXXXX.

D. Explanation of Chase as to why the misdirection of deposits occurred

32. According to Chase, its funds transfer system is governed by the United States Uniform Commercial Code, article 4-A-207(2)(a). This law provides only that a beneficiary's bank *may* rely on an incoming account number to credit funds transferred to the numbered account identified, without matching the transfer to the account name. In response to a question raised by the concerned Member States, Chase reported that its funds transfer systems are automated to recognize an incoming account number and automatically credit the amount to that account, without reference to the name of the account. According to Chase, it is only when there is no valid account number at Chase that the transfer system rejects it and the deposit is then handled manually by an operator. Chase asserted that there is no cost-effective or technically feasible way to change the funds transfer clearing system to match account numbers to account titles. It noted that such changes would significantly affect clearing times and negatively affect the service that Chase provides to the United Nations and other customers.[1]

33. In connection with the investigation into the misdirection of the UNEP contributions, Chase reported to the United Nations Treasurer that, during the period when the 13 contributions were misdirected into the Rouse-Madakor account (February 1998–October 1999), it had received 38 other transfers to the UNEP account which also bore erroneous account numbers. These transfers, however, indicated Chase accounts that did not exist; as a result, the system rejected the deposits, thereby requiring manual intervention at Chase in order to effect the transaction. In these cases, bank personnel made inquiries as to the intended beneficiary and the intended account before they made the necessary manual adjustments to ensure that the transfers were credited to the intended beneficiary, the UNEP Trust Fund. As discussed below, this explanation does not account for all the problems identified during the investigation.

34. In September 1999, after Chase had identified that the Italian contribution had been misdirected into the Rouse-Madakor account, two additional transfers, from Namibia and France and totalling US$ 17,393, were also misdirected into the Rouse-Madakor account. When presented with this, Chase responded to the United Nations Treasurer that the fact that one incoming transfer had been identified as having been miscredited to the Rouse-Madakor account would not, in and of itself, give Chase grounds to block subsequent transfers to the account and, without such a block, no subsequent transfers that were automatically processed to the account could have been prevented. Chase claimed that it had no reason to expect that any subsequent transfer bearing that account number would also prove to be erroneous. Chase made this claim despite the fact that the United Nations Office at Nairobi previously had informed it of the missing deposits from Belgium and Uruguay.

35. In addition, there were misdeposits which, even under the Chase transfer system, should have been prevented. The three misdirected Belgian contributions differ from the others in that the account number used by the Belgian Government contained an extra zero (i.e., *000*-1-XXXXXX). This number is not the same as the Rouse-Madakor account number, *001*-XXXXXX. Nevertheless, the contributions were deposited into her account. Chase was asked how it was possible, if only numbers were recognized by its system, that funds directed to account number *000*-1-XXXXXX were instead credited to account number *001*-XXXXXX. In its response, Chase provided new information: its funds transfer system automatically adds or drops extraneous leading zeros to fit the number in its account system. Accordingly, the initial "*0*" digit in *000*-1-XXXXXX was dropped by the Chase system, thereby resulting in an account number, *00*-1-XXXXXX, which was the Rouse-Madakor account number, to which the three contributions were deposited.

36. The response of Chase does not, however, explain 2 of the 38 erroneous transfers which had required manual intervention. These 2 transfers were directed by the contributing Member State to account number

0001-1-XXXXXX which bears an extra leading digit "*0*" to that of the correct UNEP account number, *001*-1-XXXXXX. In accordance with the explanation provided by Chase, the leading zero should have been dropped by its system and the funds deposited to the UNEP account. Instead, both transfers were rejected by the system and required manual intervention. If this process had been followed in the case of the Belgian deposit, it too would have required manual intervention.

37. Chase was requested to explain why the two erroneous transfers required manual intervention which resulted in correct deposits, when the Belgian deposits did not. In a letter dated 14 March 2000 addressed to the Investigations Section, Chase asserted that, in the other two cases, the account number field had contained two dashes ("-"), but those from Belgium had not.

38. The response provided by Chase does not appear to explain the discrepancies in its handling of these funds. The Belgian transfers with the extra "*0*" (*000*-1-XXXXXX), the two erroneous transfers which required manual intervention (*0001*-1-XXXXXX) and the UNEP Trust Fund account (*001*-1-XXXXXX) all contain two dashes in the account numbers, while the Rouse-Madakor account number (*001*-XXXXXX) has one dash. Nevertheless, the three Belgian transfers were deposited by Chase into the Rouse-Madakor account.

E. Documents provided by the Government of Turkey

39. The explanation provided by Chase that its funds transfer system cannot match the account name as well as the account number is not supported by the documents provided by the Government of Turkey.

40. On 25 May 1999, the Government of Turkey directed three contributions, of US$ 33,118, US$ 35,184 and US$ 13,632 to the UNEP Trust Fund account. The first two contributions were to be deposited to account number *001*-XXXXXX, while the third was to be deposited to account number *001-1*-XXXXXX. Chase advised the Turkish transmitting bank that it was unable to execute the payment of US$ 35,184 because the beneficiary's account number (*001*-XXXXXX) and name (UNEP) did not agree. They requested that the Turkish transmitting bank provide the correct account number, which the Turkish transmitting bank did, and the US$ 35,184 was correctly deposited into the UNEP account number *001-1*-XXXXXX.

41. The same did not hold true for the US$ 33,118 contribution. While this contribution also had been directed to the *001*-XXXXXX account number, the Chase system did not reject the transfer because the account name and number did not match but, instead, the contribution was automatically deposited into the Rouse-Madakor account.

42. In a letter dated 3 April 2000 to the Investigations Section, Chase explained that, on the date that it received the Turkish Government's instructions to effect the two deposits, 26 May 1999, there was a temporary computer malfunction in the link between funds transfer system of Chase and the retail accounting system, which resulted in the US$ 35,184 payment being rejected by the system. At that point, a manual operator intervened in order to identify the party to be credited. When the manual operator noted the discrepancy between the account number and account name, the remitting bank, the Central Bank of Turkey, was contacted for clarification of the correct beneficiary. Based on its reply, the UNEP Trust Fund account was credited with the funds. Chase added that the only reason the US$ 35,184 payment was rejected by the system was the temporary computer malfunction that was ongoing when the payment entered the Chase funds transfer system. Had this payment entered the system when the link between the funds transfer and retail accounting systems was in normal operation, the funds, as in the case of the US$ 33,118 contribution, would have automatically been processed and deposited into the Rouse-Madakor account.

IV. Subsequent events

43. Once Chase had determined in September 1999 that the Italian contribution had been credited to the Rouse-Madakor account, Chase representatives contacted Ms. Rouse-Madakor to request her authorization to debit her account for the misdirected contribution. Ms. Rouse-Madakor refused to return the funds erroneously deposited into her account. By that time, Ms. Rouse-Madakor had spent more than US$ 200,000 of the misdirected funds.

44. The United Nations requested Chase to debit the erroneous account and to credit the intended account, the UNEP Trust Fund account. Since Ms. Rouse-Madakor refused to return the funds, Chase was unable to comply with the United Nations request and resorted to freezing the Rouse-Madakor account early in November 1999 in order to prevent further loss of United Nations funds. In December 1999, Ms. Rouse-Madakor sued Chase, seeking a release of the funds in her account, which she claimed were hers. Chase, by way of counterclaim, has asserted claims against Ms. Rouse-Madakor in the nature of indemnity and contribution, and has also sought a declaration as to the ownership of the funds in question. The case is currently pending in New York State Supreme Court.

45. Several meetings and discussions were held with Chase by the United Nations Treasurer and representatives of the Office of Legal Affairs and the Office of Internal Oversight Services. Pursuant to requests made by the United Nations at those meetings for the restoration of the misdirected funds, Chase, on 4 February 2000, informed the United Nations Treasurer that it had credited to the UNEP Trust Fund account the sum of US$ 470,121.57, the equivalent of the sum being held by Chase in the Rouse-Madakor account pending final resolution of the action before the New York State Supreme Court. The Organization, however, continued to press Chase for the restoration of the full amount.

46. On 8 March 2000, Ms. Rouse-Madakor was arrested and charged with bank fraud, filing false statements and bank larceny by the Office of the United States Attorney in Manhattan. That criminal case is pending.

47. Following a final meeting on 1 May 2000 with the United Nations Treasurer and representatives of the Office of Legal Affairs and the Office of Internal Oversight Services, Chase restored the balance of the misdirected funds (US$ 231,877.37) to the UNEP Trust Fund account on 3 May and has promised to engage with United Nations staff in the development of ways to prevent problems.

48. The Audit and Management Consulting Division of the Office of Internal Oversight Services has included in its audit plan for 2000 a horizontal audit of the policies and procedures observed by major United Nations offices, funds and programmes for the receipt, accounting and control of both assessed and voluntary contributions. Taking into account the findings of the Investigations Section in the present report, this audit will include a review of, among other areas, United Nations Treasury arrangements to monitor the performance and adequacy of information provided by Chase and any other bank to which such contributions are or may be remitted. Where appropriate, audit recommendations will be issued to strengthen the adequacy and effectiveness of internal controls in ensuring that contributions are properly managed, accounted for, and protected against loss through carelessness, fraud or other irregularities.

V. Corrective measures proposed by Chase

49. Given the high volume of error, and following discussions with United Nations staff, Chase proposed to the United Nations Treasurer that the UNEP Trust Fund account, and other accounts held in the name of UNEP, be closed and that new accounts be opened with a unique three-digit prefix that does not begin with zero and which would be for the exclusive use of the United Nations. While such a change does not ensure that errors in transmitting instructions will not occur, the unique United Nations prefix may prevent money from being deposited into a non-United Nations account, provided the initial three-digit prefix is correct.

50. In response to these developments and requests from the United Nations Office at Nairobi and the United Nations Treasurer for assistance in avoiding such problems in the future, Chase has proposed the following:

(a) Utilization of existing test-key arrangements for all communications from all Nairobi-based United Nations offices, including messages not related to the transfer of funds. This would ensure that United Nations offices are alerted whenever a communication has not arrived at Chase because a missing sequence number would alert Chase to a communication that has not been received;

(b) Examination of the feasibility of arranging a secure and reliable communication facility between the United Nations Office at Nairobi and Chase by having a Chase e-mail address on the United Nations internal e-mail system;

(c) An arrangement whereby the United Nations Office at Nairobi would provide Chase with comprehensive, detailed information on any outstanding contributions for the period 1998-2000 which Member States have indicated that they have paid to accounts at Chase but for which the United Nations Office at Nairobi has been unable to account;[2]

(d) Establishment of a bi-weekly conference call between officers of the United Nations Office at Nairobi and Chase to discuss service, including any unresolved customer service issues;

(e) Establishment of a management escalation process of the United Nations at Nairobi and Chase to address any potential inquiries which remain outstanding. This would include telephone calls from the United Nations Office at Nairobi to Chase, alerting it of particularly significant issues;

(f) Examination of the feasibility and potential benefit of establishing a CHIPS UID (universal identifier) number which could be used as an identifier for United States dollar CHIPS and Fedwire funds transfer credits to the United Nations accounts at Chase;

(g) Arrangement of a meeting between key officers of the Financial Resources Management Service and Budget and Funds Management Service at the United Nations Office at Nairobi and of Chase to discuss implementation of the above-mentioned proposals.

51. Chase contends that there are telecommunications difficulties between the United States of America and Kenya which have made it very challenging for Chase to communicate to the United Nations Office at Nairobi in a timely manner. It has stated that fax messages both to and from Nairobi frequently do not arrive owing to the apparent telecommunications problems in Kenya. (That is not, however, the experience of the Office of Internal Oversight Services in more than four years of communication by fax between its offices in Kenya and the United States.) In order to better track communications from the United Nations Office at Nairobi, the Banking Agency Manager of Chase International has suggested that all correspondence from the Nairobi-based organizations be directed to his attention. He will then direct the correspondence to the appropriate staff member in his group or to other Chase departments, and follow up to ensure the timely and satisfactory resolution of all issues.

VI. Conclusions

52. If Ms. Rouse-Madakor had not engaged in apparently criminal acts but had returned the funds deposited in error to her account instead of spending and trying to keep the UNEP funds, this matter would most likely have not been presented to the Office of Internal Oversight Services. It is evident, however, that there are system deficiencies which this case has revealed. Based upon the documentation provided by the Member States, Chase, the United Nations Office at Nairobi and the Eastern Caribbean Central Bank, it appears that the contributions were misdirected in error. Funds transfer instructions unintentionally did not contain the fourth digit "1" of the UNEP Trust Fund account number.

53. The Chase system based the deposits only on the account number and ignored the name of the intended beneficiary, UNEP, which also was included in the transfer instructions. Since the account number in the 13 misdirected transfers was attached to an active account at Chase, the transfers were automatically credited to the Rouse-Madakor account instead of the intended beneficiary of these transfers, the UNEP Trust Fund.

54. The extent of the misdirected funds could have been minimized and corrective action taken at a much earlier stage had the United Nations Office at Nairobi and Chase acted in a more prompt and efficient manner upon initially being made aware of certain indications that contributions meant for the UNEP Trust Fund account were being misdirected. More specific findings are set forth below.

A. United Nations Office at Nairobi

55. Although by far the majority of the approximately US$ 300 million in contributions received by the United Nations Office at Nairobi were properly credited, a review of the correspondence of the Office indicates mistakes and a lack of sufficient care on the part of its staff in conducting their work in these cases. This is evidenced by the Office:

(a) Not noticing that the account number reported in the two letters from the Italian Embassy in Nairobi was *001*-XXXXXX rather than *001-1*-XXXXXX, the correct UNEP Trust Fund account number;

(b) Sending, in December 1999, the reminder notice and invoice of the outstanding contribution to the Italian Government despite the numerous communications on the missing Italian contribution;

(c) Incorrectly citing in the handwritten note from a staff member on the February fax from the Uruguayan Mission that "Uruguay to BY $6,802 10 Feb 98 a/c *001-1*-XXXXXX" although the account number noted is not that reported on the fax;

(d) Not considering the possibility that the other missing deposits which had been reported to it by Member States could have been misdirected as well, even though it had learned that the Uruguayan contribution had been made to account number 001-XXXXXX, as noted in the fax of the Office dated 11 June 1999 to Chase.

56. The communications from the United Nations Office at Nairobi also reveal a lack of response on a timely basis. This is evidenced by the Office:

(a) Not having notified Chase until February 1999 of the missing Italian contribution which had been reported to the Office in September 1998;

(b) Not having requested the assistance of Chase in identifying the missing deposits reported in February 1999 by Uruguay and Belgium until June 1999.

57. As evidenced by the following, actions on the part of the staff at the United Nations Office at Nairobi who handle financial contributions indicate a lack of familiarity with banking requirements:

(a) The documents that were provided by the United Nations Office at Nairobi to Chase regarding the Italian contribution contained little information as to the transfer: one was the instruction for the purchase of United States dollars for the contribution, which provided no deposit instructions, and the other appears to be the transfer instructions from the Italian Ministry of the Environment to the Ufficio Italiano dei Cambi. The copy of this document held by the Office is, however, of poor quality and not legible. While the deposit instructions may have been on the document, they are not apparent. The Office, in order to have been able to assist Chase in its search for the missing deposit, should have requested that the Italian Government provide a clearer copy; this document may have contained the requisite information required by Chase to conduct its search. If the Office had provided either of the 1998 letters sent by the Italian Government to Chase, the error could have been detected almost a year earlier;

(b) The staff at the United Nations Office at Nairobi were unfamiliar with the banking protocol which requires the remitting bank to initiate the investigation into a deposit until the United Nations Treasurer informed them of that fact in an email message in July 1999.

B. Chase

58. A review of the correspondence between Chase and its customer, the United Nations Office at Nairobi, revealed that Chase did not respond promptly to inquiries and requests from the Office, and failed to advise the Office clearly of what was needed by Chase to track the misdirected funds:

(a) Chase became aware in February 1999 that there was at least one substantial missing contribution but did not examine the possible reasons for or likely routes of the missing contribution. Subsequently, in a fax dated 11 June 1999, the United Nations Office at Nairobi had informed Chase that the Uruguayan contribution had been deposited to account number 001-XXXXXX and explained that this was an erroneous account number owing to the omission of the fourth digit number "1". Chase did not respond to this crucial fax. The United Nations Office at Nairobi had identified the source of the problem, reported it to Chase but Chase took no action upon receipt of the fax from the Office. As noted in paragraph 26 above, Chase has asserted to the Investigations Service that it did not receive that fax;

(b) In a fax dated 8 June 1999, the United Nations Office at Nairobi advised Chase that it required its assistance in locating funds which had been transferred by donors and required more detailed assistance than the response provided by Chase which simply indicated that the amount was not in the accounts. There was no response to this fax until 7 September 1999, despite three requests for a response, dated 14 July, 29 July and 17 August 1999.

59. The Chase system of deposits by wire transfer, made by account number only without reference to the name of the account holder, was exacerbated by the assignment by Chase of a non-exclusive number, beginning with *001*, to the United Nations. Chase has

indicated to the Organization that it is in the process of identifying a unique prefix for all United Nations accounts.

60. The explanations of Chase for the various ways that the contributions were handled seem to indicate additional deficiencies in its system.

VII. Recommendations

Recommendation 1

When Italy and, subsequently, Belgium and Uruguay contacted the United Nations Office at Nairobi to advise that they had made contributions which, according to the records of the Office had not been credited to the UNEP account, the staff of the Office did not pay adequate attention on a timely basis to the queries raised by the Member States. The Office of Internal Oversight Services recommends that the United Nations Office at Nairobi establish a focal point for Member States to contact when they have questions regarding their contributions. Those questions will then be researched and a report made to the concerned Member State in a careful and timely manner. (IV99/202/01)*

Recommendation 2

During discussions with the staff of the United Nations Office at Nairobi, it was noted that the Contributions Unit of the Budget and Funds Management Service is not staffed at a level that would enable it to provide the necessary support required to control more than 90 UNEP trust funds and the tracking of US$ 300 million in contributions. The Office of Internal Oversight Services recommends that the United Nations Office at Nairobi determine the proper level and allocation of staffing necessary to carry out this function. (IV99/202/02)*

Recommendation 3

One of the contributing factors to the inability of the United Nations Office at Nairobi to identify the misdirected contributions or determine when they occurred was the lack of communication with Member States at the time that the contributions were made. The Office of Internal Oversight Services recommends that the Office evaluate and establish a procedure by which Member States are provided in writing, on a regular basis, with a status report on their contributions, including both amounts paid and amounts outstanding. This will provide Member States with the opportunity to review the status of their contributions and subsequently advise the proposed focal point at the United Nations Office at Nairobi if any contribution has not been properly credited. For example, one possibility is to place extract reports from the contributions database on the Intranet at UNEP/United Nations Office at Nairobi and to provide secure access to relevant parts of the database to focal points nominated by the donor countries. (IV99/202/03)*

Recommendation 4

In order to better assure both contributing Member States and the Organization that contributions intended for the Organization are credited to the proper United Nations bank accounts, the Office of Internal Oversight Services recommends that the United Nations Treasurer require Chase to develop and implement a system with the facility to match an account name or special prefix to the account number, thereby minimizing the risk of a similar occurrence of misdirected contributions to the UNEP Trust Fund account and to the other bank accounts held by the Organization at Chase. (IV99/202/04)*

Recommendation 5

The staff at the United Nations Office at Nairobi and Chase personnel both complained to the Investigations Service of the inadequate communication between the two parties, which ultimately brought about a breakdown in communications between the two and a feeling of mistrust. The Office of Internal Oversight Services recommends that Chase personnel and the concerned staff at the United Nations Office at Nairobi meet with the United Nations Treasurer to discuss how to improve communications and the ways in which Chase can improve its client service relationship, thus engendering trust between the United Nations Office at Nairobi and Chase. (IV99/202/05)*

Recommendation 6

The Office of Internal Oversight Services recommends that the appropriate finance staff at the United Nations Office at Nairobi and Chase personnel,

* An internal code used by the Office of Internal Oversight Services.

together with the United Nations Treasurer, meet in New York to discuss the feasibility of implementing the recommendations of the United Nations and Chase on ways in which the current system can be improved, to hold an exchange of views on their respective responsibilities, and for the United Nations Office at Nairobi to make suggestions to Chase that would enable it to better address the needs of the Office. (IV99/202/06)*

Recommendation 7

The Office of Internal Oversight Services recommends that the Department of Management review this case and formulate procedures to ensure that all contributions from Member States are promptly acknowledged and that Member States are provided with a periodic statement on the status of their contributions. In addition, the Department of Management should take steps, such as training staff who work in the contributions area, to ensure that the lessons learned from the experience with the UNEP Trust Fund account are applied to other contributions areas with the aim of improving operations. (IV99/202/07)*

The United Nations Office at Nairobi and the Department of Management have accepted the report's findings and recommendations. The United Nations Office at Nairobi has agreed to notify the Member States of its efforts to achieve full compliance with the recommendations. In September 2000, the Office of Internal Oversight Services will evaluate the compliance of the United Nations Office at Nairobi and advise Member States accordingly.

(*Signed*) Dileep **Nair**
Under-Secretary-General
for Internal Oversight Services

Notes

[1] The Office of Internal Oversight Services notes, however, that at least one major clearing bank has a funds transfer system which, on a selective basis, matches the account number with the account title before crediting accounts with incoming funds.

[2] The United Nations Office at Nairobi has informed the Office of Internal Oversight Services that there are no other missing contributions.

Annex

Payments misdirected into the Rouse-Madakor bank account

Date	*Donor*	*Amount (United States dollars)*
12 February 1998	Uruguay	6 802.00
9 March 1998	Belgium	3 618.00
9 March 1998	Belgium	35 519.00
9 March 1998	Belgium	39 938.00
8 April 1998	Italy	191 671.00
25 June 1998	France	170 336.00
29 July 1998	Saint Kitts and Nevis	10 000.00
25 August 1998	Dominica	112.00
27 May 1999	Turkey	33 118.00
9 June 1999	Italy	188 339.00
23 June 1999	Finland	5 152.50
12 October 1999	Namibia	1 000.00
21 October 1999	France	16 393.44